BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company to Establish a Demonstration Climate Protection Program and Tariff Option	Application No. 06-01-012

REPLY BRIEF OF
PACIFIC GAS AND ELECTRIC COMPANY

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SUMMARY OF RECOMMENDATIONS

In addition to the items listed in the Summary of Recommendations section at the front of Pacific Gas and Electric Company's (PG&E) Concurrent Opening Brief to Its Application to Establish a Demonstration Climate Protection Program and Tariff Option (CPT), PG&E recommends in this reply brief that the Commission also:

1. Adopt a one-way balancing account for the CPT, to allay the concerns of various parties that the CPT funding only be able to be used for CPT purposes;

2. Include an ordering paragraph that if there are any tax benefits to PG&E as a result of the CPT's retired certified emissions or other benefits, that the value of these will be allocated to all customers if all customers are funding the CPT's administrative and marketing costs;

3. Reject TURN's belated and unfounded new proposal for a mandatory program by which PG&E would immediately purchase 2 million tons of GHG reductions under CCAR standards;

4. Reject TURN's belated proposal to exclude manure management projects; and

5. Include an ordering paragraph that sets forth clearly PG&E's intention that it may not use the CPT to argue against proposals for mandatory regulatory structures to address climate change in the future.

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1. INTRODUCTION

In accordance with the April 5, 2006 Scoping Memo and Ruling of Assigned Commissioner and Administrative Law Judge (ALJ), Pacific Gas and Electric Company (PG&E or the Company) submits this Reply Brief in its Demonstration Climate Protection Program and Tariff Option (CPT) Application.

PG&E's reply brief responds to arguments raised by the Agricultural Energy Consumers Association (AECA), Aglet Consumer Alliance (Aglet), City and County of San Francisco (CCSF), Division of Ratepayer Advocates (DRA), and the Utility Reform Network (TURN). At the start, PG&E wishes to highlight several principles that underlie its comments. First, PG&E has endeavored to construct a voluntary program that will be very successful in terms of customer participation levels. PG&E would encourage the California Public Utilities Commission (CPUC or Commission) to evaluate PG&E's CPT proposal with this idea in mind. Second, several entities criticized PG&E's CPT proposal on the theory that shareholders might profit from the program. PG&E does not agree with the validity of this argument. Nevertheless, in order to mitigate this concern, PG&E is willing to agree to a one-way balancing account and to agree that the value of tax benefits (if any) as a result of retiring the CPT's procured reductions will be allocated to all customers, if all customers are funding the CPT's administrative and marketing costs. Third, the imposition of certain conditions could cause PG&E to reconsider its willingness to proceed with this initiative—namely changes that would prevent PG&E's CPT Project from becoming a top performing program, and changes that would disadvantage PG&E shareholders.

A summary of PG&E's responses on remaining major issues in the case is as follows.

1.1 Non-Participant Funding

Some parties (particularly DRA and TURN) argue that non-participants should not bear any of the CPT program costs. This position is inconsistent with Commission precedent and the evidence in the record. CPT is a public purpose program that undeniably will benefit all customers. It is similar to other efforts such as the energy efficiency, California Solar Initiative, demand response and low emission vehicles programs, which were also initiated in response to public policy concerns. As with these other programs that provide broad societal benefits, all customers, participants and non-participants alike, should be required by the Commission to support the CPT program.

1.2 Shareholder Funding

Aglet, TURN and DRA assert that PG&E's shareholders should bear all or some of the costs of the program. Again, the CPT is a public purpose program designed for the benefit of society and PG&E's customers. As such, it is entirely appropriate that PG&E's customers support the entire costs of the program. The parties advocating shareholder funding have attempted to provide "authority" for their positions. All such "precedents" cited by the parties are readily distinguishable. Thus, no appropriate basis exists for ordering shareholder funding.

Any such directive, and its consequences as a potential precedent, would cause PG&E to rethink the advisability of moving forward with the CPT program.

1.3 Tax Deductibility of Rate Premiums

Aglet, DRA and TURN recommend that PG&E make the CPT program rate premiums tax deductible. PG&E notes that the program as proposed is currently tax deductible for businesses. While PG&E does not inherently object to making the costs of the program tax deductible for residential customers, PG&E strongly believes that it would be a mistake to require it at the inception of this demonstration program. There are many unanswered questions about how to structure such a program so as to allow residential customers to claim a tax deduction, and accomplishing this structure would take a substantial amount of time. In PG&E's view, it would be a mistake to delay commencement of the program for this reason. If it proves to be feasible to structure this program to permit tax deduction by residential customers, this enhancement could be added in the future.

1.4 Size of the Marketing Budget

CCSF and DRA argue for a reduction in the marketing budget proposed by PG&E while Aglet and TURN raise concerns about the size of the budget but make no recommendation as to the appropriate size. PG&E created its marketing budget to enable this program to be very successful, as measured by percentage of customers who enroll. PG&E wants its CPT program to be a "Top Ten" program nationwide and not be mere window dressing. Furthermore, unlike the other parties, PG&E developed its marketing budget based on customer acquisition costs benchmarked against other successful utility green programs. Any reduction in the marketing budget ordered by the Commission will result in a concomitant reduction in the participation levels and, therefore, the amount of GHG emission reductions and environmental co-benefits that result from the program.

1.5 Allocation of Program Costs

Aglet, DRA and TURN all argue that any costs allocated to non-participating customers be allocated on an equal-cents-per-unit-of-energy basis, rather than the distribution revenues method proposed by PG&E. PG&E's allocation proposal is consistent with the cost allocation method used in various programs such as the California Solar Initiative, the Self-Generation Incentive Program and PG&E's demand response and energy efficiency programs.

1.6 Function of the External Advisory Group (EAG)

CCSF proposes to change the function of PG&E's proposed EAG from an advisory role to a regulatory and decision-making operational role. CCSF fundamentally misunderstands the regulatory compact wherein PG&E is regulated by the CPUC. The Commission relies on advisory bodies to provide stakeholder input into utility programs such as the energy efficiency and demand response programs. The role of the EAG proposed by PG&E is intended to be analogous to these other advisory bodies which the Commission relies upon. Moreover, there are legal impediments to delegating the management of ratepayer collections to advisory boards. *See, e.g.*, D. 05-01-055, p. 97.

1.7 TURN's New Proposal for Procurement of Greenhouse Gas Reductions

In its opening brief, TURN switches its position on the proposed CPT from support for a voluntary customer program, albeit with some significant modifications, to opposition to such a voluntary customer program. Instead, TURN proposes that PG&E be ordered to immediately purchase 2 million tons of CO2 reductions with no customer sign-up component. TURN then suggests that once the CO2 reductions have been purchased, PG&E can return to the Commission and ask for permission to offer a voluntary program. TURN's proposal has many benefits that are similar to the benefits from the proposed CPT, such as reducing CO2 and gaining experience with procuring reductions through competitive procurement. However, PG&E believes that its proposed CPT has all those benefits, plus others, and therefore should be preferred over TURN's primary recommendation as discussed below.

2. PROCEDURAL HISTORY

See Concurrent Opening Brief of Pacific Gas and Electric Company to Its Application to Establish a Demonstration Climate Protection Program and Tariff Option ("PG&E's Opening Brief"). (PG&E, OB, pp. 6-7.)

3. REASONABLENESS OF CPT PROGRAM IN THE CONTEXT OF STATE CLIMATE CHANGE POLICY

No party disputes that PG&E's proposed CPT fits within the State's climate change policy. For example, DRA's opening brief states: "PG&E's CPT is consistent with ongoing California efforts to address climate change." (DRA, OB, p. 3.) Aglet's opening brief states: "It is consistent with State climate change policy, but only very generally." (Aglet, OB, p. 1.) TURN's opening brief states: "This effort is worthwhile and could supplement policies designed to control GHG emissions at their source." (TURN, OB, p.4.)

CCSF does not appear to understand PG&E's CPT proposal. As PG&E explained in its direct testimony (Exh. 1, p. 1-1 to p. 1-2), and as TURN observed above, the CPT is intended to supplement other GHG emissions policies. CCSF in its opening brief states: "It is for the Commission to decide if it is better to have a state-wide mandated program, instead of the proposed CPT. CCSF would likely not oppose such a mandate and would expect such a mandate to be more reasonable that [sic] the current unreformed CPT proposal." (CCSF, OB, p. 7.) Thus, CCSF does not recognize that the proposed CPT was designed from the beginning to supplement, not replace, any mandatory GHG regulations adopted by the state, and therefore sets up a false choice for the Commission.

4. CPT PROGRAM DESIGN

4.1 Three-year Demonstration Program

PG&E proposed the CPT as a three year demonstration program. The length of three years was chosen to be long enough to build a significant program but short enough to allow changes and adjustments to the program in the event of new greenhouse gas regulatory regimes that might be instituted in California.

4.1.1 PG&E is Not Opposed to a Longer Pilot Period if the Commission Feels that Is Appropriate.

CCSF states in its opening brief that "Given the evident spread of the [start-up] costs over more non-start-up years, the Commission may wish to consider a longer lifespan for the program." (CCSF, OB, p. 8.) In support of this, CCSF correctly notes that steady-state costs are lower than start-up costs for a program of this type. (CCSF, OB, p. 7.) PG&E itself pointed out this distinction between start-up and steady-state costs in detail in its rebuttal. (Exh. 3, p. 1-3.) If the Commission concludes that a longer program would be appropriate, PG&E would be willing to make the program longer. Still PG&E believes that there needs to be at least a "check-in" after three years to make sure the program is consistent with any new, mandatory GHG regulations, to update the premium based on new GHG reduction price forecasts, and to make program design adjustments based on the experience gained in the start-up period.

4.1.2 PG&E Has Been Consistent Throughout this Proceeding that the Proposed CPT is in Addition to Any Potential Mandatory GHG Reduction Regimes

TURN implies that PG&E might use the existence of the CPT, if approved, to argue against pending mandatory requirements. (TURN, OB, p. 7.) This is an irresponsible twisting of the record. On the first page of its direct testimony PG&E stated that: "PG&E's proposed CPT is intended to complement and supplement, not take away from, efforts to establish mandatory, comprehensive solutions to climate change." (PG&E, Ex. 1, p. 1-1, lines 23-25.)

PG&E consistently maintained that position throughout the hearings, and says it again now: PG&E agrees that the CPT would have to be coordinated with future mandates, and not the other way around. Moreover, leading national environmental groups, such as the Natural Resources Defense Council (NRDC), the Union of Concerned Scientists and Environmental Defense, would not have supported this proposal if they felt that PG&E was using it as a way to fend off potential mandatory GHG regulations. However, if the CPUC feels this point needs further emphasis, PG&E would not object to the addition of an ordering paragraph to this effect.

4.1.3 TURN's Primary Recommendation Does Not Provide as Many Benefits as PG&E's Proposed CPT

In Section 3 of its opening brief, TURN radically changes its position on the proposed CPT from support for a voluntary customer program, albeit with some significant modifications, to opposition to such a voluntary customer program. TURN instead proposes that PG&E be required to immediately purchase 2 million tons of CO2 on behalf of all customers. It then suggests that once the CO2 reductions have been purchased, PG&E can return to the Commission and ask for permission to offer a voluntary tariff option. (TURN, OB, p. 5.) PG&E is responding to TURN here in Section 4.1 because it views this as a Program Design issue.

TURN's "primary recommendation" was not part of TURN's initial testimony and therefore did not receive the scrutiny of other proposals made prior to hearings. However, PG&E's interpretation is that TURN recommends that the Commission authorize PG&E to collect in rates from all customers an amount equal to the costs of procuring 2 million tons of GHG reductions plus the administrative costs of doing so. This would be roughly $24 million dollars. PG&E further interprets TURN's proposal that it makes no changes to the way PG&E proposed to procure those tons in its CPT application. PG&E's understanding is that, TURN's primary recommendation would eliminate the voluntary customer enrollment and premiums and also eliminate the proposed $12 million marketing budget. TURN's proposal has many benefits that are similar to the benefits from the proposed CPT, such as reducing CO2 and gaining experience with procuring reductions through competitive procurement. However, PG&E believes that its proposed CPT has all those benefits, plus others, and therefore should be preferred over TURN's primary recommendation as discussed below.

4.1.3.1 PG&E's Proposal Provides More Customer Benefits, Including Increased Customer Awareness of Global Climate Change, an Opportunity to Take Personal Action on Global Climate Change, and an Opportunity to Make Their Own Use Climate Neutral

PG&E's proposed CPT provides more benefits to customers than TURN's proposal, since TURN's proposal completely eliminates customer involvement in climate protection. First, PG&E's CPT will increase customer awareness of global climate change. As PG&E has explained in detail, a secondary benefit of the proposed marketing campaign is the fact that both participants and non-participants alike will be exposed to educational information about global warming. (PG&E, Counihan, TR., p. 301.) This benefit was acknowledged as beneficial by CCSF: "CCSF views one of the benefits of any well-run program, such as the proposed CPT, to be a broad educational role for the program." (CCSF, OB, p. 21.) This benefit would be lost under TURN's primary recommendation.

Second, PG&E's CPT will allow customers an opportunity to make a choice to take action on climate change. Across the country, many green tariff options have been offered that provide customers a choice to improve the environment. It is logical that there is inherent value in customer choice.

Third, PG&E's CPT will be the only program that allows customers to make the link between climate protection and their personal choices around use of electricity and natural gas. Customers who practice energy efficiency and conservation will pay less to make their own use climate neutral. Customers with higher use will understand the implications of their choices when they see their higher price tag to achieve climate neutrality. A key element of the value proposition for PG&E's proposed CPT is the concept that customers can pay to make their own use climate neutral. Customers' experience with the CPT may even lead them to offset GHG emissions related to their other activities, such as driving their car.

4.1.3.2 PG&E's Proposal Helps Cities and Counties Achieve their Climate Change Policies and Goals; TURN's Proposal Does Not

PG&E's proposed CPT offers municipal governments with climate change policies and goals a tool to help meet those goals. PG&E plans to work with cities and counties to provide them with data on how many customers and tons of reductions come from within their jurisdictions. Since the CPT includes voluntary customer enrollment, cities and counties can count these reductions toward achievement of their voluntary GHG reduction goals. In addition, cities and counties can encourage their citizens to enroll. PG&E anticipates working with cities and counties during the course of the three year pilot project to develop approaches that will appeal to the residents of different cites and counties. Thus cities and counties can have a hand in both achieving their own goals and making the program successful.

TURN's proposal offers nothing to cities and counties who may be interested in working with PG&E to further their climate change objectives.[1/] In fact, CCSF and other cities with GHG reduction targets may find that TURN's proposal makes achievement of their local GHG targets more difficult.

1/ PG&E believes there are 45 cities or counties within its service territory that participate in the U.S. Mayors' Climate Protection Agreement and/or the ICLEI Cities for Climate Protection Campaign.

4.1.3.3 TURN's Proposal Would Not Result in Better Investigation of and Commitment to GHG Reductions

TURN states that "PG&E's own proposal would . . . slow actual commitments to investigating the market for GHG reduction projects." (TURN, OB, p. 5, emphasis in original.) TURN is incorrect, apparently basing its view on a faulty assumption that PG&E plans to wait until all customer funds have been collected in order to start soliciting for reduction projects. PG&E plans to engage in a solicitation for GHG reduction projects immediately upon approval of the CPT. PG&E will proceed with both customer outreach and GHG reduction activities in parallel, with the final amount of reductions purchased to be decided at the time of contract signing based upon amount of money then collected from participating customers.

In summary, PG&E's proposal offers all the benefits of TURN's new primary recommendation plus more. This is not surprising since TURN's primary recommendation is essentially half of the program PG&E proposed.

4.2 Program Budget

PG&E proposed a marketing and administration budget of $16.4 million over the course of the full CPT demonstration program. Included in that budget is $900,000 to help the CCAR develop new protocols. PG&E provided extensive evidence regarding the appropriate size of the budget. This topic was also addressed extensively in PG&E's Opening Brief. (PG&E, OB, pp. 10-17.) PG&E will not reiterate here its comments on the reasonableness of its budget. Rather it will only address new topics raised in the opening briefs of other parties.

4.2.1 TURN Is Concerned About Underspending

TURN believes that the marketing and administration budget is too large and that its adoption will tempt PG&E to underspend and thereby create profit for shareholders. (TURN, OB, pp. 9-10.) As stated below in Section 4.16, PG&E is willing to agree to one-way balancing account treatment for M&A expenses, which will obviate TURN's concern and the concern of others on this point.

4.2.2 TURN Questions the Acquisition Cost Methodology Used by PG&E to Develop Its Budget Proposal

In its opening brief, TURN for the first time questions the use of the acquisition cost methodology used by PG&E to develop its marketing budget. (TURN, OB, pp. 8-9.) TURN did not question the use of the acquisition cost methodology in its testimony or on the witness stand. In fact, TURN did not dispute the size of the marketing budget in its testimony at all.

In its Opening Brief, PG&E explains why the acquisition cost methodology provides the best method of calculating the budget for a voluntary tariff program. (PG&E, OB, pp. 11-17.) TURN implies that the conventional approach to utility budgeting would have been a better way to estimate the budget. However, it fails to provide support for this view because there is none. It should be noted that recently the Commission approved a budget for marketing the voluntary Critical Peak Pricing tariff, based on the same type of acquisition cost methodology. (*See* D.06-07-027 approving PG&E's Automated Metering Infrastructure application.)

TURN tries to further undermine the CPT's acquisition cost methodology by complaining that PG&E made "[n]o effort … to ascertain the customer acquisition costs of entities selling GHG reductions at the retail level to individuals." (TURN, OB, p. 9.) This is a mischaracterization of PG&E's testimony. The transcript cite provided by TURN does not refer to acquisition costs at all. Instead it refers to the fact that PG&E Witness Counihan did not know the overall size of marketing budgets at businesses that offer carbon reduction products. (PG&E, Counihan, TR, p. 363.)

TURN also asserts that PG&E's estimates of acquisition costs are higher than those reported by the National Renewable Energy Laboratory (NREL) study of green pricing programs. (TURN, OB, p. 9.) In fact, PG&E's estimates of acquisition costs decrease to the NREL average of $48 for top performing utilities in the third year of the proposed CPT program, reflecting the fact that PG&E's CPT is a start-up program in the first two years. Further, TURN's witness admitted that start-up costs are higher (TURN, Roschelle, TR. p. 258, lines 27-28 to p. 259, lines 1-3.) PG&E's intention is to establish a "top performer" program and its estimate of acquisition costs matches the average reported acquisition costs of "top performers" after the CPT gets to steady-state. (PG&E, Exh. 5, p. 18.)

4.2.3 CCSF's Budget Proposal Actually Suffers from All the Accusations CCSF Incorrectly Makes Against PG&E

CCSF criticizes PG&E's proposed marketing budget and suggests it should be reduced from $12 million to $10.2 million. (CCSF, OB, pp. 9-11.) CCSF complains about the amount of detail in PG&E's budget and attempts to impugn the credentials of PG&E's witness, Mr. Counihan, as not having sufficient marketing training. However, the extensive award-winning experience of Mr. Counihan and his firm, Ecos Consulting, is well documented in the transcript.[2/] (PG&E, Counihan, TR. pp. 281, lines 23-28 to p.-282, lines 1-3.) It should be noted that CCSF's budget proposal lacks any detail, and was not testified to by anyone with marketing experience. It appears that the real driver on CCSF's marketing budget argument is its desire to divert marketing funds to CCAR in order to more quickly develop a specific urban project protocol that will help CCSF meet its self-imposed greenhouse gas targets, rather than any specific knowledge of what would be an appropriate marketing budget for the CPT program.

2/ Mr. Counihan's expert testimony and acquisition cost expertise was the basis for the marketing budget recently approved by the Commission for PG&E's AMI/CPP application. (*See* D.06-07-027.)

4.2.4 DRA's Budget Recommendations Ignore the Fact that it is Comparing a Group of Programs at Different Stages of Existence with a Start-up Budget for the CPT

DRA argues in Section 4.10 of its opening brief that the proposed marketing budget is too large. (DRA, OB, pp. 7-8.) PG&E is responding to DRA's concerns here in Section 4.2 because its comments on Program Management and Administration are entirely about the size of the budget. PG&E described at length in its opening brief why the acquisition cost methodology used by PG&E to develop its budget is more reliable than DRA's method. (PG&E, OB, pp. 11-17.) PG&E will only address two additional issues here. First, despite extensive testimony on the difference between the costs of start-up programs and steady-state programs, DRA does not acknowledge in its opening brief the fact that PG&E's proposed program is a start-up, that its marketing and administration costs as a percent of all revenues declines over time, and that it is inappropriate to compare a start-up program to steady-state programs. DRA does not provide any reason for not addressing these points. While DRA ignored these facts, CCSF acknowledges them (CCSF, OB, pp. 7-8), and TURN's witness did as well (TURN, Roschelle, TR. p. 258, lines 27-28 to p. 259, lines 1-3.) Second, since the opening briefs were filed in the CPT, the Commission accepted the use of the acquisition cost methodology for calculating marketing budgets in D. 06-07-027.

4.2.5 Aglet's Concerns about Lack of "Tree Growers" is Misplaced in this Section and Not Consistent with the Record

Aglet raises a concern in Section 4.2 of its opening brief that "Tree grower eagerness for PG&E's project is speculative." (Aglet, OB, p. 2.) Aglet's concern is not supported by the record. Furthermore, even if Aglet's concern were warranted, it has nothing to do with the size of the proposed CPT budget. PG&E witness Hitz addressed this topic at length on the stand, noting that:

> [T]he registry currently has two forestry members, the Van Eck Foundation and the Conservation Fund, both of which have signaled their interest in undertaking projects and certifying reductions with the registry which they would like to transact in a carbon marketplace. In the second of those two projects, the Van Eck Foundation's project, they've expressed a direct interest in trying to provide certified reductions into the CPT program. We also receive many other additional inquiries on a fairly regular basis from would-be project developers directly interested in the carbon marketplace as well as the CPT program. These include organizations such as land trusts, the Nature Conservancy, the trust for public lands [sic], as well as forest industry members as well, including companies such as Mendocino Redwood Company and Collins Pine Company. (CCAR, Hitz, TR, p. 124, lines 21-28 to p. 125, lines 1-13.)

4.3 The Use Of California Climate Action Registry Protocols, as Originally Proposed, Continues to be the Optimal Way to Implement the CPT

PG&E extensively documented in testimony and its opening brief that the CCAR's protocols are the "gold standard" in the field of GHG reporting and verification. (CCSF, Feb 27 comments, p. 5; PG&E, San Martin, TR. p. 620, lines 14-18.) No party disputes: (1) that the CCAR develops high-quality protocols; (2) that those protocols should be the mechanism for implementing the GHG reduction goals of the CPT; and (3) that the recent issues surrounding the CCAR emanating from Sacramento in no way affect the CPT proposal. DRA endorsed the CPT's approach through diverse CCAR protocols when it wrote "[p]rotocols outside the forestry sector would offer greater diversity and enable PG&E to better manage risks associated with the cost of implementing projects." (DRA, OB, p. 5; *see also* DRA, Greig, TR. p. 387, lines 15-28 to p. 388, lines 1-4.) What remains in dispute, curiously enough, comes from the one intervening party who is also a member of the CCAR, the City and County of San Francisco. However, CCSF's misplaced objections have no basis in fact.

CCSF is simply wrong when it asserts that two years is "unrealistic" as a timeline to develop four new protocols. (CCSF, OB, p. 11.) The CCAR developed four forestry protocols in two years, shortly after the CCAR was formed. (CCAR, Wittenberg, TR. p. 150, lines 16-20.) It is already in the process of developing a project level protocol for manure management (*Id*., p.

111, lines 25-28), which would be the first of the four new protocols toward which CPT funding would contribute. To the contrary, it is quite "realistic" to imagine the CCAR completing four protocols in two and a half years as the CPT envisions, which is what the CCAR witnesses stated. (CCAR, Hitz, TR. p. 144, lines 4-24; *Id*., TR. p. 146, lines 5-6.)

CCSF is also misguided in its worry that "the aggressive timeline and limited money will only produce either a certain type of protocol – *i.e.* simple protocols, or the timetable will slip and/or the money will run out." (CCSF, OB, p. 11.) CCAR witness Wittenberg was clear that there are "several things [CCAR] consider[s] before going forward," but that "one of the main things that influences us" is the "reduction potential." (CCAR, Wittenberg, TR. p. 152, lines 20-26.) This answer came after a series of questions seemingly designed to get the CCAR to admit that more complex protocols would not receive funding under the CCAR's timetable, an admission the CCAR did not make. (*See, generally*, CCAR, Wittenberg, TR. p. 145, line 22 top. 146, line 17; *Id*., pp. 147, line 20 to p. 148, line 18; *Id*.,. p. 149, line 27 to p. 152, line 26.) CCSF's opening brief attempts to boil this exchange down to a single question about whether a faster rate of protocol development would require more money (CCSF, OB, p. 11). This ignores the CCAR's testimony regarding other sources of revenue (CCAR, Wittenberg, TR. p. 148, lines 1-18), the fact that the passage of time has allowed protocol development to integrate more sources of information (id. at p. 150, lines 21-24), and that the focus on reduction projects necessarily makes the process simpler. (Id. at p. 152, lines 10-14.) The bottom line is that CCSF's conclusion is unfounded according to the experts.

In its opening brief at p. 13, CCSF irresponsibly cites CCAR witness Wittenberg as saying that the Registry concedes that it is "aware of potential conflicts of interest in the use of the Registry's name, resources, and reputation." But the citation CCSF uses (CCAR, Wittenberg, TR. p. 116, lines 19-23) does not support this contention. Rather it simply indicates that some Registry members are more interested in energy efficiency protocols than others. This example merely demonstrates that sometimes interests within the Registry differ, but not that there is a conflict of interest, and certainly not one in the "use of the Registry's name, resources, and reputation." (CCSF, OB, p. 13)

CCSF also misinterprets Ms. Wittenberg's testimony to say that the Registry would turn down money if it were "at the expense of the CPT." (CCSF, OB, p. 15, line 9.) The context of this quote is that the Registry determined it did not need additional money in order to provide the necessary work incremental to the CPT. (CCAR, Wittenberg, TR. p. 159, lines 8-18.) As such, the Registry did not want to change its request in the CPT, as proposed, to limit its potential success. (*Id*.)

Instead of allowing the Registry's witnesses to speak for the Registry, CCSF inappropriately attempts to use its own witness to speak for the Registry. CCSF states "CCSF witness Blumenfeld testified that the Registry would be willing to consider which protocol subjects to consider for development based upon the indicated wishes of potential funders." (CCSF, OB, p. 14.) But the Registry itself testified to the exact opposite effect when Ms. Wittenberg said: "the Registry has an established methodology for creating and adopting new protocols which we do not expect PG&E to unduly influence." (CCAR, Wittenberg, TR. p. 111, lines 3-6.)

While decrying the influence that PG&E might exercise over the Registry due to CPT funding, CCSF seems to want to dictate to the CCAR that it develop a municipal protocol as soon as possible. (CCSF, OB, p. 12.) Thus, it appears that CCSF itself is trying to exert undue influence over the Registry's protocol prioritization process. Further, PG&E agrees that the Registry should consider a municipal protocol, as CCAR testified it is doing. (CCAR, Wittenberg, TR. p. 116, lines 23-26). PG&E supports this as a member of the Registry generally, and because PG&E supports the Registry's established protocol prioritization process. But PG&E does not support CCSF's apparent attempt to hijack the CPT for the purpose of increasing CCSF's influence over the Registry or over its protocol development process.

CCSF advocates, out of what seems to be thin air, that the CPT fund the Registry at a level of $2.1 million. (CCSF, OB, p. 12, fn.9.) There is absolutely no documentation for $2.1 million as opposed to the $900,000 that the Registry itself requested as contained in PG&E's proposal. (CCAR, Wittenberg, TR. p. 123, lines 7-12.)

4.4 Feasibility of Using the CPT to do Greenhouse Gas Reduction Projects Outside of California

DRA concedes that limiting projects to ones in California would have significant "co-benefits," including possible "improvements in habitat, water and air quality, as well as the benefits to the California economy from project contracts and monitoring within the state." (DRA, OB, p. 5, lines 21-23.) Nonetheless, DRA asserts "it is a mistake to dismiss the possibility of GHG reduction projects outside of California without analysis." (Id.)

PG&E agrees with DRA that there is some potential benefit to out-of-state projects, assuming CCAR protocols are available within the three year demonstration period. If such protocols were available, PG&E would consider investing in out-of-state GHG reduction projects and consult with the EAG as to the advisability of doing so.

4.5 Process for Procuring GHG Reductions

TURN's opening brief raises, for the first time, three concerns about how PG&E proposes to procure, verify, and retire GHG reductions projects. (TURN, OB, pp. 10-11.) As discussed, *infra*, TURN's insinuations are misplaced, and, if true, would apply equally to TURN's new "primary recommendation".

4.5.1 TURN's Sweeping Allegation That PG&E Has Not Provided Extensive Details on the Manner in Which it Plans to Solicit, Select and Verify GHG Reduction Projects is Completely Wrong

TURN alleges in its opening brief that: "PG&E has not provided extensive details on the manner in which it plans to solicit, select and verify GHG reduction projects." (TURN, OB, p. 10.) In fact, PG&E thoroughly explained this topic in its direct testimony (PG&E, Exh. 1, pp. 2-25 to 2-33). Despite this sweeping assertion, TURN's concerns revolve around only two issues, namely how the emission reductions will be verified and how they will be retired.

4.5.2 TURN's Claim that PG&E Does Not Articulate How GHG Reductions Procured Under the CCAR Protocols will be Verified is Incorrect, Independent Third Party Certifiers Approved by the Registry per CEC Regulations are In Place Already, and TURN's Proposal for Further Approvals Is Unfounded

TURN claims that there is only a single reference in testimony to "independent third party verification." (TURN, OB, p. 11, fn.17, citing PG&E, Exh. 1, p. 2-26.) TURN goes on to suggest that there is not already an approved independent verifier performing this function, and therefore requests the Commission to require PG&E to seek Commission approval of any verifying agent prior to executing specific contracts for GHG reduction. TURN's assertion is factually incorrect and therefore its "remedy" unwarranted. For example, PG&E provided various references to independent verifiers (*see e.g.*, PG&E, Exh, 3, p. 3-19, lines 18-20; p. 3-22, lines 20-23.) In response to the ALJ's questions, not only did the Registry make it clear that "the forestry protocol requires every project developer to have independent, third party certifiers verify the greenhouse gas reductions achieved under such forest projects each year" (PG&E, Exh. 50, p. 10, Answer 5b), but it also explained that the California Energy Commission (CEC), per statute assists the Registry in accrediting and overseeing independent third party verifiers of emissions data. (CCAR, Hitz, TR. p. 119, lines 5-12; *see* Senate Bill 1771 (stats. 200, Ch. 1018).) In fact, all Registry protocols, whether they are for entity-wide emissions reporting or emission reduction project reporting, require independent third party verification by Registry-approved certifiers. And the necessary independent third party certifiers have already been approved by the Registry in accordance with CEC regulations, and now exist independent of the Registry.[3/] The list of certifiers who have been approved by both the CEC and the CCAR can be found at http://www.climateregistry.org/SERVICEPROVIDERS/certifiers/. TURN's request that the Commission now develop a new process of approving independent third party Registry certifiers is unnecessary and duplicative of other state agencies. The Commission should disregard TURN's concern on this point and reject this unnecessary duplication.

4.5.3 The CPT's Certified Emission Reductions Will be Permanently Retired per Registry Processes, and TURN's Concerns are Misplaced

TURN is also concerned about the exact timing of the permanent retirement of all certified CPT GHG reductions. (TURN, OB, p. 11.) PG&E agrees with TURN that safeguards against double counting are a key to program success, and that the process of designating retirement of a certified reduction is important. Simply put, PG&E guarantees that no retired reduction will be used to meet an existing or future mandated emission standard or emission reduction requirement placed on PG&E. PG&E also stated that it would put specific language into contracts with sellers of reductions to prevent them from double counting or double selling reductions. (PG&E, San Martin, TR. p. 597, lines 18-21.) CPT-funded certified reductions will be used for one purpose and one purpose only—to make enrolled customers' natural gas and electricity use "climate neutral" or better. (PG&E, Exh.1 , pp. ES-1 to ES-2, p. 1-5, lines 22-25

3/ In response to the ALJ's question regarding what PG&E would do if the Registry went away, PG&E stated that it "would seek, via an Advice Letter, CPUC approval before proceeding with use of any protocols developed by entities other than the…Registry." (Exh. 50, Answer 5C, p. 11.) PG&E also committed that regardless of whether such other entities' protocols required it, PG&E would only pursue GHG reduction projects that are independently certified by third parties. (*Id.*) However, if such an advice letter ever became necessary to file, PG&E would be willing to include a list of proposed, pre-approved independent third party certifiers.

to p. 1-6, lines 1-3.) And, as stated clearly during hearings in response to TURN's question regarding the precise details of how permanent retirement would occur, Mr. San Martin reiterated "100 percent of the procured reductions will be retired" (PG&E, San Martin, TR. p. 598, lines 20-21.), and that it was his belief that "the Registry should retire those reductions as they are created." (PG&E, San Martin, TR. p. 598, lines 21-22.) This is a core commitment and key feature of the CPT, and major environmental groups like NRDC would not be supporting PG&E's proposed program if that were not so.

4.6 Composition and Function of External Advisory Group

PG&E first proposed an EAG in its initial filing. (PG&E, Exh. 1, p. 2-9.) In response to various good suggestions from various intervening parties and the ALJ, PG&E agreed to expand the types of entities on the EAG to include representatives from municipalities, the agricultural community, and the CPUC, as well as to add additional responsibilities to the EAG for various marketing activities, and use the same conflict of interest screens used for advisory groups to PG&E's energy efficiency programs. These improvements to the EAG were discussed in some detail in PG&E's opening brief. (PG&E, OB, pp. 31-34.) These improvements appeared to satisfy most of the intervenors. Aglet and TURN did not discuss the EAG in their opening briefs. AECA (OB, p.2) and DRA (OB, p. 6) appeared satisfied with the improvements to the EAG that PG&E agreed to. Only CCSF still had concerns, and objected to PG&E choosing the EAG's members, plus it also wanted the EAG to assert more control over the CPT program (CCSF, OB, pp. 16-18), even though both of these changes would be inconsistent with other existing successful CPUC-approved advisory bodies for public purpose programs.

4.6.1 Composition of EAG

CCSF fails to acknowledge in its opening brief that PG&E agreed on the witness stand to include a representative of municipal governments on the EAG. (PG&E, Exh. 1, p. 2-9, line 17.)

CCSF also fails to acknowledge that PG&E agreed on the witness stand to appropriate conflict of interest screens for the EAG. (PG&E, Pulling, TR. p. 11, lines 25-28 to p. 12, lines 1-12 and 22-26.) This apparent failure to understand the record in this case then leads to CCSF's further confusion about the entire EAG process. Most of CCSF's concerns about the EAG are addressed in PG&E's opening brief. (PG&E, OB, pp. 31-34.) The one new criticism of the EAG composition in CCSF's opening brief is that PG&E should not choose who is on the EAG. (CCSF, OB, pp. 16-17.) Again, CCSF appears unaware of CPUC precedent on this point-- in the energy efficiency proceedings the Commission clearly put the responsibility for identifying and selecting members of the Peer Review Groups (PRGs) on the utilities. (D. 05-01-055, *mimeo*, pp. 97-106.)

4.6.2 Function of the EAG

CCSF alleges there is no "watchdog" over PG&E, and argues that, therefore, the EAG should be vested with approval, rather than advisory authority. (CCSF, OB. pp. 17-18.) Thus, CCSF appears to fundamentally misunderstand the regulatory compact wherein the Commission is PG&E's regulatory "watchdog" and has broad powers of control and sanction at its disposal. In its opening brief, PG&E explains why in the energy efficiency programs the Public Advisory Groups (PAGs) and Peer Review Groups (PRGs) are advisory and do not have decisionmaking authority. (PG&E, OB, p. 32.) Specifically, in D. 05-01-055 the Commission warned that it has "encountered legal obstacles in those instances where Commission-appointed advisory boards have been directed to manage a portion of ratepayer collections without prior statutory authorization." (D. 05-01-055, *mimeo*, p. 97.) PG&E believes that the Commission, not an External Advisory Group, is in the best position to regulate PG&E.

The Commission should accept PG&E's proposal for EAG composition and function as an advisory body like the PAG, as described in PG&E's opening brief. (PG&E, OB, pp. 31-34.)

4.7 Estimated Costs of GHG Reductions and Cost-Effectiveness

4.7.1 PG&E Estimated the Costs of GHG Reductions based on the Best Available Data; Criticisms of PG&E's Estimate are Based on Faulty Analogies

TURN and DRA both question the cost per ton estimates that PG&E used to calculate the size of its proposed CPT premium. Forecasting prices of any product into the future is, by definition, an uncertain enterprise. The best the Commission can do is to select the estimate that seems to be the most logical and reasonable. PG&E has estimated that California-based, CCAR certified GHG reduction projects can be purchased for $9.71 per ton of CO2. This estimate was chosen because it represented an estimate that was calculated by a consultant to the Commission (E3) which has been relied on by the Commission in various proceedings. (*See* citations in PG&E, Exh. 1, pp. 2-19 to 2-20.) In addition, PG&E conducted a thorough review of the published literature to determine that E-3's figure was reasonable. (*Id*. at pp. 2-20 to 2-21.)

TURN criticizes the E3 estimate because "the estimates do not involve reforestation projects meeting CCAR protocols and subject to PG&E's contractual conditions." (TURN, OB, p. 12.) This assertion is true, but, as PG&E stated during hearings, no Registry certified reductions have been sold in California (PG&E, San Martin, TR., p. 602, lines 2-6.) Despite urging the Commission to rely on data from projects certified by the CCAR, the only data TURN cites on prices is from projects certified by the Oregon Climate Trust. There is no evidence that these prices would hold true if, as TURN suggests, they met "CCAR protocols and [were] subject to PG&E's contractual conditions". (TURN, OB, p. 12.)

DRA cites the CarbonFund as a source of reductions in the $5 per ton range. (DRA, OB, p. 6.) PG&E described why CarbonFund's projects are not analogous to PG&E's proposal in its rebuttal (PG&E, Exh. 3, pp. 3-16 to 3-18). To summarize, most of CarbonFund's projects are outside of California, most are energy efficiency or renewable energy projects, and none are certified by the CCAR. CarbonFund does not identify which non-CCAR protocols were used for its forestry credits, nor does it identify which non-CCAR protocol was used for verification purposes.

One of the objectives of the CPT is to help develop California's climate change infrastructure, including beginning to identify market prices for high quality reductions of GHGs in California. As CPT price data becomes available via reports to the CPUC, it will help a variety of efforts that are being undertaken in California to address the issue of climate change. (PG&E, Exh. 1, p. 2-11, lines 17-34 to p. 2-12, lines 1-3.)

The CPUC-adopted E-3 report serves as a reasonable basis for the initial CPT premium of $9.71 per ton. (PG&E, Exh. 3, p. 3-19, lines 25-32.) The Commission should reject TURN's and DRA's criticisms of PG&E's carbon cost estimate and accept PG&E's estimate because it is the estimate that has the most analytical support and has been accepted by the Commission in other proceedings.

4.7.2 Cost-Effectiveness

Cost-effectiveness is a difficult concept to apply to the CPT since this is a first-of-its-kind program and scant data exists. Aglet recognizes this in discussing cost-effectiveness when it arrives at the following conclusion: "Aglet does not believe that rigorous cost-effectiveness testing should be required for what PG&E admits is a demonstration program." (Aglet, OB, pp. 3-4.) PG&E's opening testimony indicated its willingness and intention to report CPT revenues, expenses and emission reductions on a programmatic and project basis to the CPUC. (PG&E, Exh. 1, p. 2-33, lines 9-12.) This will help begin to build the data record for cost-effectiveness, which is part of developing the state's climate change infrastructure.

TURN advocates for a cost-effectiveness measure based on total program costs divided by tons of reductions, and then runs two examples to show that: (1) cost per ton would increase if

PG&E's enrollment rates were half of its estimates in its proposal; and (2) costs per ton would decrease if the program was made mandatory and all marketing costs were removed from the calculation. (TURN, OB, p. 14.) PG&E will address both these assertions in turn.

First, TURN's example shows that lower enrollment rates increase the average cost per ton and is arithmetically correct. However, it does not show the flip side of the coin. *Higher* enrollment rates would *reduce* the average cost per ton. Moreover, if TURN truly believes that rigorously reported and certified tons of CO2 reductions can be purchased in California for $4-5 per ton, as its opening brief suggests, then the average cost per ton of reductions from PG&E's program would be cut in half. PG&E's core commitment is to use every dollar of premiums for GHG reduction purchases and make customers "climate neutral *or better*". (PG&E, Exh. 1, p. ES-1.) No party, including TURN, has challenged this commitment. What this means is that if GHG reductions are procured at less than $9.71, then more than 20 million tons of reductions will be procured. Thus, the net effect of lower than projected procurement prices (i.e., less than $9.71 per ton) would be beneficial from an environmental and cost-effectiveness perspective.

TURN's second example shows that cost per ton would decrease if the TURN's primary recommendation was approved and all marketing costs were removed from the calculation. This also is arithmetically true. However, that scenario would result in a fundamental change of the program and would not provide as many benefits as PG&E's original proposal, as discussed previously in Section 4.1.3. Finally, TURN fails to acknowledge that if the program is continued beyond three years, overall program cost-effectiveness improves. This point is covered by PG&E (Exh. 3, pp. 1-5 to 1-6) and by CCSF (CCSF, OB, p. 7). Further, as PG&E stated in Section 4.1 above, if the Commission desires a longer program, PG&E would have no objection.

4.8 Calculation of Climate Neutrality

No new arguments raised in opening briefs. See PG&E's discussion in its opening brief.

4.9 CPT Rate Calculation

No new arguments raised in opening briefs. See PG&E's discussion in its opening brief.

4.10 Program Management and Administration

Only one party, DRA, made any comments in their opening brief under Section 4.10, Program Management and Administration. (DRA, OB, pp. 7-8.) Since those comments related to the size of the budget, please see PG&E's comments in Section 4.2 above.

4.11 Tax Deductibility of Rate Premiums

PG&E addressed in its opening brief whether the CPT program should be delayed in order to make it tax deductible for the approximately 38 percent of PG&E's residential customers who itemize their income taxes. (PG&E, OB, pp. 40-43.) Here, PG&E addresses several specific assertions and misstatements on this point in others' opening briefs.

4.11.1 TURN Is Wrong to Suggest that PG&E is Motivated by Avoiding Third Party Participation

In its opening brief, TURN suggests that the only reason PG&E did not structure the program to be tax deductible for the approximately 38 percent of residential customers that itemize their returns, is because PG&E wanted to avoid partnering with a third party. (TURN, OB, p. 17.) TURN cites nothing in the record to support this opinion. In fact, the question of tax deductibility is totally separate from the issue of "partnering." Partnering is not the issue. As discussed in PG&E's opening brief, one of the issues that needs to be resolved in order to decide the tax deductibility question is whether to create a new 501(c)(3) or to partner with an existing one. Thus tax deductibility is possible without a partnering arrangement with an existing non-profit organization. In this context, TURN mentions the Oregon Climate Trust and CarbonFund. (TURN, OB, pp. 18-19.) PG&E has no aversion to partnering with other organizations. PG&E has indicated a willingness to partner with municipal governments to promote the CPT— a development that has nothing to do with tax deductibility. In fact, TURN acknowledges in its own opening brief that PG&E partners with existing long-established entities such as the Salvation Army, to promote low-income programs, and with municipalities to promote energy efficiency programs. (*Id*.)

TURN simply fails to address the larger issues that motivate PG&E's concerns here– namely the uncertainties, additional complexity and delay that would be caused by requiring PG&E to make the program tax deductible for residential customers at this time. (PG&E, Exh. 3, pp.1-15 to 1-19; PG&E, OB, pp. 40-43)

4.11.2 DRA's Claim that PG&E Did Not Quantify the Cost or Time of Obtaining an IRS Letter Ruling is Not Consistent with the Record

DRA claims that PG&E did not quantify the time or cost involved with obtaining an IRS letter ruling for tax deductibility purposes. (DRA, OB, p. 8.) It is true that there is great uncertainty about whether this would be required, and, if so, how long it would take. However, when asked why it took the New England Green Start program's partnership with a 501(c)(3) organization five years to get up and running, PG&E Witness Counihan had the following to say about IRS letter rulings:

> [T]he IRS letter was dated six months after the Massachusetts program sent them a letter in request. And in order to send the letter in request to the IRS, I imagine that you have to get your ducks in a row. You've got to design your program, be very confident about what the structure's going to be, get your various partners on board, and then draft up a letter in the exact way you want to send the letter, so that you get the answer that you want. So it's hard for me to believe that it took less than a year to get the tax deductibility. (PG&E, Counihan, TR., p. 353, lines 10-20.)

No other party on the record had a better operational assessment of how long it would take to achieve tax deductibility for the CPT.

4.11.3 Conclusion: Defer Tax Deductibility for Further Investigation

The Commission should dismiss TURN's spurious comments about fear of partnering and approve the CPT as currently proposed and allow PG&E to investigate tax deductibility for residential customers further, once actual customers have enrolled in the program in order to determine the value of tax deductibility to actual customers. To do otherwise would risk significant delay of the program.

4.12 Customer Outreach Activities

Most of the parties did not comment in their opening briefs on outreach activities. The lone exception is CCSF which misstates the record, and misunderstands various topics, including the regulatory compact PG&E has with the CPUC. (CCSF, OB, pp. 19-23.)

For example, CCSF states that PG&E is "singularly unclear as to who would administer the marketing effort." (CCSF, OB, p. 20.) This is a blatant misstatement. PG&E has been clear that PG&E would administer the marketing effort. It would be carried out by PG&E employees and consultants (PG&E, Pulling, TR., p. 22, lines 14-16) who would report to PG&E Witness Pulling. (*Id*., p. 23, lines 14-22.) Further, PG&E has a plan to assign internal staff and hire a marketing consulting once the CPT program has been approved. (PG&E, Counihan, TR., p. 292.)

CCSF's selective reading of the record about the need for an "educational" component to the marketing campaign for the CPT creates further confusion. (CCSF, OB, pp. 21-23.) CCSF asserts that PG&E has not properly defined or explained the educational benefits of its marketing campaign. PG&E's testimony is clear that the purpose of the proposed marketing campaign is to obtain customer enrollment in the program. As PG&E has explained in detail, a clear secondary benefit of that marketing campaign will be that both participants and non-participants alike will be exposed to educational information about global warming. (PG&E, Counihan, TR., p. 301, lines 8-22.)

In a part of its opening brief, entitled "CPUC as a 'Group' for Affinity Marketing" (CCSF, OB, pp. 23-24), CCSF contends that PG&E witness Pulling defined the "Commission in…its role in regulating that marketing" as an "affinity group". (CCSF, OB, p. 23, citing PG&E Witness Pulling at TR., p. 21, lines 14-22.) In the cited passage, Witness Pulling is only agreeing with the ALJ that it would be reasonable to have marketing materials state that the program is "paid for by California ratepayers." Ms. Pulling then goes on to say that PG&E would be willing to also credit CCSF or any other affinity group that PG&E partnered with on the program. CCSF's interpretation of this evidence is rather perplexing.

CCSF's one clear recommendation in Section 4.12 is that "[t]he Commission should make a fully detailed marketing plan a requirement for approval of the Application." (CCSF, OB, p. 20.) PG&E has no objection to an ordering paragraph of a decision approving the CPT that provides a means for Commission staff to review the detailed marketing plan before the program is rolled out to customers. PG&E intends to develop a very detailed marketing plan after CPUC approval of the CPT and prior to launching the marketing campaign. That marketing plan will be shared with the EAG for its advice and input. PG&E is also willing to share the detailed marketing plan with other Commission staff that are not on the EAG, as directed by the Commission. PG&E would only request that the review be coordinated in a manner that permits keeping the program on track for launch within the first quarter of 2007, and that approval of the Application by late November not be held up for this purpose.

4.13 Enrollment Goals

TURN asserts in its opening brief that it believes PG&E will actually get a lower participation rate than its estimated 4.4 percent at the end of the three-year pilot period.

(TURN, OB, p. 20.) PG&E acknowledges that its aim for 4.4 percent enrollment is a "stretch goal" that will take considerable effort to achieve. However, PG&E believes that 4.4 percent is achievable. The NREL report shows that the Top Ten green pricing programs in the country have participation rates ranging from 3.8 to 14.5 percent. (Exh. 5, Appendix C, Table C-3, p. 36.) That same study reports that Palo Alto had a participation rate of 10.9 percent and Sacramento Municipal Utility District had a participation rate of 5.2 percent in their green power programs. (*Id.*) Both Palo Alto and Sacramento are within the PG&E service territory geographically and PG&E provides natural gas service to both communities. However, in the event that the Commission significantly reduces the marketing budget for the CPT, or significantly increases the price of the CPT, this level of participation is less likely to be achieved.

4.14 Cost Responsibility Backstop Proposal

As argued in PG&E's opening brief (PG&E, OB, pp. 46-48), the backstop proposal is a reasonable, responsible means for the CPUC to support PG&E's innovative CPT and move forward on this critical state priority. TURN requests that the CPUC reject PG&E's cost responsibility backstop proposal (TURN, OB, pp. 20-21). However, TURN made no contrary showing on this issue and in its brief merely impugns PG&E's motivations with no reference to the record. (*Id.*, OB, p. 21.) Similarly, DRA (DRA, OB, pp. 9-10) simply asserts that PG&E's proposal is "unreasonable" and makes no effort to substantiate this claim. The CPUC should approve PG&E's cost responsibility backstop proposal as a low-risk program design feature that heads off potential future issues.

4.15 TURN's Support for CCSF's Discredited Total Greenhouse Gas Reduction Guarantee Proposal Adds Nothing to CCSF's Flawed Arguments

CCSF proposes that PG&E's CPT program be required to "purchase" a minimum of 1.7 million tons of CO_2 equivalent reductions by the end of the three-year demonstration period, and that if CPT premiums were inadequate to achieve that, CCSF proposes that "the delta would be purchased using PG&E profits." (CCSF, Ex. 504, p. 8, lines 12-19.) CCSF contends that this would "give PG&E a real incentive to implement the program successfully; and … assure ratepayers a minimum level of GHG reductions for their investment in the program." (*Id*., p. 9, lines 5-7.)

PG&E addressed this issue in substantial detail in its opening brief (PG&E, OB, pp. 45-52.) For the reasons stated in its opening brief, PG&E believes it is inappropriate to set a minimum purchase requirement for a first-of-its-kind demonstration program like this one.

TURN in its brief supports CCSF's argument. (TURN, OB, p. 21.) First, like CCSF, TURN charges that PG&E fails to offer any "accountability" measures, a charge that is belied by evidence in this proceeding. PG&E thoroughly addressed this issue in its opening brief. PG&E has incorporated accountability into the CPT by proposing to adhere to the Registry protocols, the "gold standard" of climate protocols by creating an EAG and by regular reporting to its customers and the Commission. (PG&E OB, pp. 49-51.)

TURN also proceeds to characterize PG&E's GHG cost estimates as speculative and its participation rate estimates as aggressive. TURN concludes by stating that these factors create risk that "non-participant ratepayers will be forced to pay for a program that does not achieve the advertised results." TURN's characterization of PG&E's cost estimates for GHG reductions is thoroughly addressed in Section 4.7, above and in PG&E's opening brief (PG&E, OB, pp. 34-36). Finally, TURN's characterization of PG&E's estimated participation rates as aggressive is also thoroughly addressed in Section 4.13 above, and in PG&E's Opening Brief (PG&E, OB, p. 45.) TURN's characterizations above misrepresent the evidence in this proceeding and therefore add nothing to CCSF's original argument which PG&E thoroughly addressed in its opening brief. Therefore, the Commission should reject TURN's and CCSF's proposal for an emission reduction guarantee.

4.16 Ratemaking issues

4.16.1 Interest on Proposed CPBA

DRA, Aglet and TURN all propose that PG&E's Climate Protection Balancing Account (CPBA) accrue interest not at the three-month commercial paper rate, as is Commission practice for balancing accounts,[4/] but at PG&E's cost of capital. (DRA, OB, p. 10; Aglet, OB, pp. 7-8; TURN, OB, pp. 22-23.) The reasoning behind these proposals is that this account is expected to be overcollected over most of its life, at a projected balance of approximately $20 million. Over the life of the account, they argue that PG&E will be able to invest the overcollected cash at a higher rate of return, but pay ratepayers only the three-month commercial paper rate on the balancing account balance, an outcome the parties say is inequitable.

In concept, PG&E would agree with these parties, if all balancing accounts were treated the same, whether over- or undercollected. In fact, PG&E has proposed several times over the past 25 years that balancing accounts accrue interest at the cost of capital, not at the three-month commercial paper rate. The Commission has consistently rejected these proposals, and reaffirmed as recently as last September, that long-standing Commission policy is for balancing

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4/ Aglet implies that the three-month commercial paper rate is the Commission's practice that is "typical of ratemaking accounts that are not biased toward overcollection." (Aglet, OB, p. 7.) In fact, as discussed above, the Commission has never made any such distinction as to whether the account is overcollected, undercollected or biased in any way. The three-month commercial paper rate is the Commission's standard rate for **all** balancing accounts, and Aglet's description of Commission policy on this point is disingenuous.

accounts of jurisdictional utilities to accrue interest at the three-month commercial paper rate, regardless of whether the balance is owed to ratepayers or is to be collected from ratepayers.

The last point—symmetrical treatment of ratepayers and shareholders—is the crucial principle here. For while it may be conceptually appropriate for balancing accounts to accrue interest at a higher rate than currently allowed, there is no justification for ratepayers to receive a higher rate of interest on overcollections than shareholders receive on undercollections. Therefore the interest on the CPBA must be evaluated within the context of PG&E's overall portfolio of balancing accounts and the interest paid thereon.

As PG&E's various filings at the CPUC indicate, PG&E has routinely carried hundreds of millions of dollars in ratepayer-owed undercollections for service already rendered, all at the three-month commercial paper rate. For instance, PG&E's gas Core Fixed Cost Account (CFCA), an account which covers basic gas service costs for residential customers, was undercollected for all but two months of its first *ten and a half years* of existence, with the undercollection averaging approximately $250 million per year over the entire period, and reaching peak undercollections of over $400 million in five different years. (A. 97-03-002, Direct Testimony, Chapter 7, p. 7-2.) All these undercollections accrued only the three-month commercial paper rate.

In recent years, PG&E has continued to finance hundreds of millions of dollars in balancing account undercollections. For rates effective January 2005, PG&E requested recovery of $52.6 million in electric balancing account undercollections (Advice Letter 2570-E-A) and $137.4 million in gas balancing account undercollections (Advice Letter 2589-G), for a total of $190 million in undercollections owed by customers for routine electric and gas service.

For rates effective January 2006, the numbers are similar: $33.5 million in electric undercollections (Advice Letter 2706-E-A) and $127.4 million in gas undercollections (Advice Letter 2678-G), for a total of $161 million.

For these hundreds of millions of dollars of undercollections, the reverse situation complained of by DRA, Aglet and TURN obtains. It would be grossly unfair to grant ratepayers the full cost of capital on one isolated account with an expected balance of $20 million, while requiring shareholders to finance the difference between the three-month commercial paper rate and the cost of capital on hundreds of millions of dollars of annual undercollections in other accounts.

In addition, the Commission recently also upheld the notion that overcollections owed to ratepayers for multiple years should have interest at the three-month commercial paper rate. In Applications 00-03-038 and 00-03-047, regarding the disposition of balances in a number of PG&E and Southern California Edison Company balancing accounts, the utilities had proposed that, as per their tariffs and long-standing Commission precedent, the three-month commercial paper rate be used to calculate interest on overcollections owed to ratepayers, despite a delay of five and a half years in the processing of the applications (and even longer periods during which the balances had accumulated). In adjudicating the issue, the Commission said:

> The utilities' interest proposal is entirely consistent with our treatment of all balancing and memorandum accounts regardless of the rate freeze or other distractions to the timely adjudication of a pending issue before the Commission.[5/]

There are no unique issues associated with PG&E's CPBA proposal to warrant a departure from the Commission's normal, long-standing practice regarding interest on balancing

5/ D. 05-09-007, *mimeo*, p. 15.

accounts. The Commission should therefore authorize PG&E to establish a CPBA with no change in the traditional interest earned on the balance.

4.16.2 One-way Balancing Account

Although PG&E does not believe that one-way balancing account treatment is appropriate for such a small fund, PG&E is willing to accept a one-way expense account in order to provide even more transparency and customer confidence in the CPT.

4.16.3 Debt Equivalence Treatment

TURN proposes that "Debt equivalence treatment should be denied for GHG reduction contracts". TURN's argument is based on its assertion that "PG&E has argued that long-term power purchase contracts should be eligible for 'debt equivalence' treatment based on the methodologies used by some rating agencies to determine credit quality." (TURN OB, p. 25-26) TURN bases its argument on the testimony of PG&E witness Luboff, who said that granting debt equivalence treatment as proposed by PG&E would mean that 'PG&E' cost of capital will increase all else remaining equal." In fact, PG&E never proposed that GHG contracts should be granted debt equivalence treatment, as TURN admits in it own brief when it acknowledges that "PG&E did not mention this issue in its application." (*Id.*) Simply put, TURN has made much ado about nothing. PG&E did not mention the issue of debt equivalence in its application, or testimony, because the way PG&E's proposal for the climate protection program is structured, the debt equivalence of the GHG contracts will be mitigated by the up front payments from the tariffs. While TURN's statement is correct that PG&E has argued that long-term power purchase agreements create debt equivalence and result in a higher cost of capital (*id.*), TURN fails to recognize a crucial and fundamental difference between a power purchase agreement and PG&E's GHG proposal. PG&E will collect *all* the money needed for a GHG contract *before* it enters into the contract. Under PG&E's CPT proposal, when PG&E enters into a GHG contract, it will already have acquired the cash collected from customers which will be used to finance all purchases under a GHG contract. Collection of all the funds necessary before the GHG contract is executed is expected to mitigate the effect of the GHG contract on the rating agency credit metrics that may be impacted by the debt equivalency of long-term contracts, which are discussed in the 2005 Cost of Capital Decision (D.04-12-047). In contrast, when PG&E enters into a power purchase agreement, it has not received payment from its customers for all the costs of the power purchase agreement over its lifetime. TURN fails to consider this crucial difference when it refers to PG&E witness Luboff's statement that the GHG contracts will increase PG&E's cost of capital, "all else remaining equal." It is plainly evident that all else is not equal between the up-front collection for the CGT program and the rate recovery of power purchase agreement costs over the term of the contract. Debt equivalence associated with PG&E's future GHG contracts will be mitigated as a result of PG&E's specific CPT proposal. If PG&E's CPT proposal is not adopted and the GHG contract cost recovery occurred after the contract is signed, as happens with purchase power contracts, debt equivalence would be more of an issue. Contrary to TURN's conclusion that "PG&E's shareholder stand to unfairly profit from the existence of this program" (TURN OB, p. 26), these contracts should not have an overall negative net impact on debt equivalence, and therefore PG&E's risk will not increase, and PG&E will not need to earn, and therefore will not seek, a higher rate of return as a result of the CPT program as proposed by PG&E.

4.16.4 Attrition is Not Needed Due to Annual Revenue Requirements

Aglet supports PG&E's position that attrition adjustments to the CPT budget will not be necessary if the CPUC adopts annualized revenue requirements as proposed. (Aglet, OB, pp. 8-9.) PG&E commits that it will not seek attrition adjustments during the 2007 GRC test years, as

Aglet has suggested. However, PG&E notes that the reason no attrition is needed is because the CPT proposal specified a revenue requirement for each program year, 2006-2009.

4.16.5 Cost Allocation of Program Costs

TURN and DRA argue that the costs of the program which are allocated to all customers, not just participants, should be allocated on an equal-cents-per-therm or kWh, instead of the distribution allocation methodology proposed by PG&E. (TURN, OB, pp. 32-33; DRA, OB, p. 10) These arguments by TURN and DRA continue to miss the most important point: that the costs proposed in A.06-01-024 do not require the cumbersome, micromanaged accounting treatments being suggested. Existing accounting structures, in particular the distribution revenue accounts and rate allocations for electric and gas customers, are not the main topic of this proceeding. PG&E has simply proposed to treat the program administrative and general costs in the same manner as other such costs. The main reason for this is that the cost allocations applied to PG&E's electric and gas distribution rates are thoroughly litigated in the relevant proceedings, to which TURN and DRA are parties. Gas and electric ratemaking and cost allocation are different, and are each the product of decades of intensive, participatory effort; TURN and DRA appear to have forgotten this principle in their "one size fits all" suggestions on equal cents per unit cost allocations. Regulatory "forum shopping" in the manner exhibited here is simply an attempt to execute an end-run around time-honored and resource-intensive ratemaking proceedings. The CPUC should adopt the simple and fair distribution revenue cost allocation that PG&E has proposed. (See PG&E, OB pp. 52-54.)

4.17 Additional Discussion on Forestry Projects

No new arguments raised in opening briefs. See PG&E's discussion in its opening brief.

4.18 Additional Discussion on Non-Forestry Projects

TURN expresses concerns about the potential for double counting of the renewable attributes associated with the generation of electricity from methane collection projects that may be funded by the CPT. TURN suggests that this Decision may specifically require the transfer of avoided methane emissions associated with biogas electricity projects, such as dairy methane projects. TURN concludes that until the Commission clarifies implementation of this provision, it would be highly problematic to fund methane collection projects. (TURN, OB, p. 27.)

AECA's opening brief states that no parties contested PG&E's position in Rebuttal (PG&E Exh. 3, p. 3-13, lines 11-32), that methane collection projects should not be precluded from potential funding by the CPT Program, unless otherwise required to collect. (AECA, OB, p. 4, lines 10-13.) PG&E agrees that this position was not challenged during hearings. TURN's concern is tardy.

TURN has also misinterpreted D.04-06-014. As noted in that decision:

> "Environmental Attributes" means any and all credits, benefits, emissions reductions, offsets, and allowances, howsoever entitled, *attributable to the generation from the Unit(s), and its displacement of conventional energy generation*. Environmental Attributes include but are not limited to: (1) any avoided emissions of pollutants to the air, soil or water such as sulfur oxides (SOx), nitrogen oxides (NOx), carbon monoxide (CO) and other pollutants; (2) any avoided emissions of carbon dioxide (CO2), methane (CH4) and other greenhouse gases (GHGs). (D.04-06-014, Appendix A, *mimeo*, p. A-2, emphasis added.)

The highlighted text defines Environmental Attributes due to the "displacement of conventional generation" and not the avoidance of methane emissions from the upstream production of the renewable fuel (i.e., the collection of methane from manure lagoons). The decision also states:

> If Seller's Unit(s) is a biomass or landfill gas facility and Seller receives any tradable Environmental Attributes based on the greenhouse gas reduction benefits or other emission offsets attributed to its fuel usage, it shall provide Buyer with sufficient Environmental Attributes to ensure that there are zero net emissions associated with the production of electricity from such facility. (*Id*. at pp. A-2 to A-3.)

Thus, the Commission states the seller would have to provide "Environmental Attributes" to the buyer to cover the emission associated with the *production of electricity* but goes no further, i.e., any emission reductions associated with the upstream production of methane are the property of the project owner. Logically, this principle applies to digester gas as well.

The Commission should reject TURN's mistaken interpretation of D.04-06-014, and approve the position of PG&E and AECA that these important manure management projects should be considered as part of a diversified CPT portfolio once the CCAR has approved protocols for these types of projects.

4.19 Use of Pay-for-Performance Contracts

TURN suggests in its opening brief that PG&E partner with an existing organization that has already entered into pay-for-performance contracts to avoid "reinventing the wheel" in the CPT. (TURN, OB, p. 28.) It is unclear what TURN means by "partnering," as it had not raised this issue by the close of hearings. However, as referred to in PG&E's opening brief, PG&E did engage the Oregon Climate Trust as a consultant to learn about such contracts. (PG&E, OB, p. 58.) Although this arrangement does not constitute a "partnership" per se, this consulting arrangement allowed PG&E to learn about the services the Oregon Climate Trust provides and how one writes the terms and conditions of such contracts. Such information sharing would no doubt continue as the CPT is rolled out. And, as PG&E also stated in its opening brief, the Company has ample experience with pay-for-performance contracts in the energy efficiency arena. (*Id*.) Therefore PG&E will not be reinventing the wheel, and TURN's concern had already been addressed.

4.20 PG&E's Experience with Opt-In Tariffs

No new arguments raised in opening briefs. See PG&E's discussion in its opening brief.

5. PROGRAM BENEFITS AND COST RESPONSIBILILTY

5.1 Program Participants

TURN, DRA and Aglet all suggest in their opening briefs that some costs of marketing and administering the CPT should be loaded into the premium charged to participants in the program. (TURN, OB, pp. 29-30; DRA, OB, pp. 10-11; Aglet, OB, pp. 9-10.) PG&E explained in its opening brief why the Company opposes putting any of the marketing and administrative costs into participants' premiums. (PG&E, OB, pp. 59-62.) In summary, PG&E believes that doing so will reduce customer participation by raising the price, and by losing the value proposition that "all your premiums will go toward purchasing carbon reduction projects, not toward marketing and administration." The claim above was tested in the Hiner market research study and was found to increase the likelihood by 59% that surveyed customers would participate in the program. (PG&E, Exh. 3, Appendix A-1, p. 23.) In addition, PG&E believes that its approach is consistent with how other CPUC-approved public purpose programs are funded. Finally, non-participants will share equally in the environmental benefits produced by the CPT, and therefore should share in the costs of the program.

TURN has proposed, for the first time, a specific level of funding to be added into the premium. TURN has proposed that the Commission increase the premium to the level that would result in a 4 percent increase in the monthly bill for the average PG&E gas and electric customer which results in an average premium of $5.75 per month, as opposed to the $4.31 per month in PG&E's proposal. (TURN, OB, p. 30.) TURN justifies this amount by saying the Hiner market research study indicates a "sweet spot" at a 4 percent bill impact after which "participation drops off." (*Id*., p. 29.) TURN then misstates PG&E's position in the next sentence when it says "As a result, PG&E agrees that a 4% bill impact represents the 'break point' for purposes of benchmarking the reasonableness of the CPT premium." (*Id*.) On the contrary, PG&E does not believe a 4 percent bill impact proves anything about the reasonableness of the CPT premium.

TURN also makes the statement that an $8 per month premium with tax deductibility equals a 4.0 percent average bill impact in an attempt to get the Commission to load *all* of the marketing and administrative costs into the premium. (*Id*.) This simplistic statement ignores several factors. First, this would represent an almost doubling in price for non-residential customers for whom the proposed CPT is already tax deductible. (PG&E, Counihan, TR. p. 351, lines 27-28 to p. 352, lines 1-12.) Second, this would represent an almost doubling in price for residential customers if they do not itemize their deductions. Third, even for residential customers who do itemize, getting a tax deduction at the end of the year is not the same as having a lower premium price, as discussed by PG&E Witness Counihan. (PG&E, Counihan, TR., pp. 328-329.)

PG&E's position remains that none of the marketing and administrative costs should be loaded into the premium. However, if the Commission is inclined to do so, rather than accept TURN's unfounded new recommendation, PG&E would suggest that the Commission limit any such increase in the premium to a level that would keep the typical PG&E residential gas and electric customer's bill premium at a level of $5 per month or less. This would still allow the following claims to be used for marketing:

- "The typical PG&E residential electric and gas customer would spend just $5 per month more if they choose to participate."
- "86% of this extra premium goes toward funding carbon reduction projects and only 14% goes toward administration."

If the Commission were to take this step, it would increase the amount charged for the premium on gas consumption from $0.06528 per therm to $0.06987 per therm. It would also increase the rates charged for the premium on electric consumption from $0.00254 to $0.00344 per kWh. For the Commission's convenience, these rates are shown in attached Appendix A, Table 1; the bill impacts for the typical residential combined gas and electric customer are shown in attached Appendix A, Table 2; and the gas and electric revenue requirements associated with these alternative rates are detailed in attached Appendix A, Table 3.

The net effect of this level of premium increase, assuming that the price increase does not reduce estimated participation rates (which PG&E believes it will), would be to collect $5.2 million from enrolled participants above the costs of purchasing the CO_2 reductions to make them climate neutral.

5.2 Non-Participating Ratepayers

TURN and DRA assert in their opening briefs that non-participating customers should not have to pay *any* of the marketing and administrative costs of the proposed CPT. TURN's argument primarily depends on its assertion that non-participating customers receive no benefits from the proposed CPT. (TURN, OB, pp. 30-32; DRA, OB, p. 11.)

Aglet on the other hand, agrees that non-participating customers receive benefits and therefore should pay some of the costs of the program, just not to the extent proposed by PG&E. (Aglet, OB, pp. 10-11.)

5.2.1 TURN is Wrong to Assert That Non-Participating Customers Do Not Receive Any Benefits and Admitted so on the Witness Stand

TURN's direct testimony stated that "[t]here is no reason why non-participants [in the CPT] should bear any of the program costs, as they receive none of the benefits." (TURN, Exh. 203, p. 10, lines 9-10.) However, on the witness stand TURN Witness Roschelle admitted that GHG reduction projects would have benefits enjoyed by all Californians (TURN, Roschelle, TR., p. 264, lines 27-28 to p. 265, lines 1-2.) Now, in its opening brief TURN recants its witness' position on the stand by claiming that PG&E has not identified any benefits which accrue to non-participating ratepayers. (TURN, OB, p. 30.)

This position not only contradicts TURN's statements during hearings, as described above, but also is contradicted in the very next sentence of TURN's opening brief which says: "Since GHG reductions create diffuse benefits which accrue equally to 'everyone in the world', there is little reason to specifically single out non-participating ratepayers to cover the costs of the program." (*Id.*) Non-participating customers are a subset of "everyone in the world" so TURN must believe they get at least *some* benefit. Moreover, if TURN's viewpoint were to be adopted as state policy, then California should take no action at all on climate change because any benefits that are created would accrue to everyone in the world, not just Californians. Fortunately, it *is* the policy of the state to take action on global climate change and the proposed CPT is consistent with such state policy (PG&E, Ex. 1, pp. 1-1 to 1-6)–while TURN's position is not.

TURN also tries to dismiss the argument that there would be no environmental co-benefits (other than the GHG benefits) created by the CPT by focusing on the possibility that non-GHG air quality benefits from CPT projects could be offset through criteria pollutant trading. (TURN, OB, pp. 31-32) What TURN does not contest is that projects that adhere to the CCAR forestry protocols will have eco-system co-benefits. These are the projects that the CPT will invest in first and these co-benefits will accrue to all Californians. In fact, on the stand, TURN's witness agreed that there are environmental co-benefits from forestry projects, manure management projects (TURN, Roschelle, TR., p. 263), and municipal projects such as urban forestry. (*Id*., p. 264, lines 21-28 to p. 265, lines 1-2.) DRA's witness also agreed that forestry projects have co-benefits that apply to non-participants (DRA, Greig, TR., p. 384, lines 7-10.)

TURN's argument that non-participating customers will not benefit from the proposed CPT should be rejected by the Commission, just as it was repudiated by TURN's witness on the stand.

5.2.2 DRA Is in Error When it Tries to Distinguish a Voluntary Program like the Proposed CPT from so-called "Mandatory" Public Purpose Programs Such as Energy Efficiency

DRA tries to distinguish in its opening brief between the proposed CPT and other public purpose programs based on whether they are "voluntary" or "mandatory." Examples include energy efficiency, low-income, and self-generation programs. DRA says: "The difference is that such programs are mandated, with no pretense that they are 'voluntary'." (DRA, OB, p. 11.)

DRA then uses this alleged distinction to argue that non-participating customers should not contribute to the cost of the program. CCSF makes a similar argument, although less coherently, in a footnote in Section 4.15. (CCSF, OB, p. 26, fn.24)

DRA's and CCSF's argument fails. The programs they cite are voluntary in the exact same sense that the proposed CPT is voluntary. For example, in energy efficiency programs, all customers, both participating and non-participating, pay for the administrative and marketing costs of the program but the customers who voluntarily choose to participate in the program pay more because they, for example, buy the efficient refrigerator or pay to have their lighting system upgraded. This helps the state achieve its policy goals and has benefits for the non-participants as well. Self generation programs like the California Solar Initiative are similar. All customers pay for the administrative and marketing cost of the program but some customers voluntarily pay thousands of dollars to put solar panels on their houses. Again, by this arrangement the state meets a policy goal and the non-participants get some co-benefit from other customers participating in the program, even if they themselves do not choose to participate by purchasing energy efficient equipment or solar panels. The CPT as proposed is exactly the same. All customers pay for the administration and marketing of the program but participating customers pay those costs plus quite a bit more to cover the GHG reduction projects. This proposal helps the state achieve a policy goal—reduced GHGs—while providing benefits to the non-participants as well.

DRA's and CCSF's distinction is wrong and should not be relied upon by the Commission to change its precedent on how public purpose programs are funded.

5.2.3 TURN Uses This Section to Argue Ratemaking Treatment

TURN argues in Section 5.2 of its opening brief that if costs of the CPT are assessed to non-participants, they should not be done using PG&E's proposed distribution allocation methodology. (TURN, OB, p. 32) PG&E considers this a ratemaking issue and replies to TURN in Section 4.16.5 above.

5.3 PG&E Shareholders

The other parties' briefs fail to provide any precedent for the CPUC to order PG&E to use shareholder funds for the CPT. As PG&E's opening brief shows, to do so would be improper as a matter of law and would violate the utility regulatory compact. Further, there are conditions under which PG&E would not be willing to proceed with its CPT initiative, such as the CPUC imposing conditions that were disadvantageous to its shareholders.

5.3.1 No Party Has Shown A Relevant California Precedent Supporting Their Requests that the CPUC Attempt to Order PG&E's Shareholders to Fund the CPT

Several parties' opening briefs attempt to show precedents where shareholders have paid a significant portion of the costs of a tariffed program like the CPT. However, the few citations they provide fail to do the job.

Significantly, parties fail to distinguish between the situation where the CPUC does not provide specific funding for an activity, but leaves it to utility discretion whether to engage in the activity, and situations such as here, where PG&E cannot proceed to implement the tariff without the CPUC's approval.

Aglet, DRA and CCSF all cite to General Rate Case (GRC) decisions for the proposition that the Commission has ordered shareholder funding for tariffed programs and should do so again here. (Aglet, OB, p. 12; DRA, OB, p. 12; CCSF, OB, p. 25.) However, as PG&E explained in its opening brief and explains in more detail below: failure to include a particular item in the authorized GRC revenue requirement is not the same as requiring shareholder funding of that activity.

Aglet (OB, p. 12) cites to only one tariffed program, PG&E's uneconomic distribution bypass deferral and distribution business attraction and retention program. This program includes tariffed discounted rate schedules, as well as efforts such as "market surveillance" and "analyzing customer information" to avoid bypass, including opposition to municipalization. (D. 00-02-046, *mimeo*, pp. 343-344, 4 CPUC 3d 473; *see also* PG&E, OB, p. 74, including fn.39.) However, this precedent is both a settlement, with no precedential value, and GRC ratemaking, which does not, in practice, require shareholder funding for this program at all.

Aglet first cites to D.04-05-055 (for PG&E's 2003-2006 GRC cycle), which Mr. Weil admits was a settlement which creates no precedent. (Aglet, OB, p.12.) On its face this settlement's text makes absolutely no mention of shareholder funding; rather it provides that PG&E's request for Account 912 would reflect zero dollars from all customers. (D.04-05-055, Attachment A, p. 14 para 3.3.3.) Second, Aglet references the prior GRC cycle (1999-2000), noting that the CPUC "denied PG&E's request for rate recovery of business retention and attraction expenses."[6/] Again, the decision makes absolutely no reference to shareholder funding.

Aglet's whole argument hinges on its assertion that "PG&E continued program activities despite the lack of rate support." (Aglet, OB, p. 12.) But in a GRC context this does not mean such activities were shareholder funded. It simply means the CPUC did not use any forecast of amounts for this activity to create the authorized revenue requirement. However, the Commission has held that the GRC revenue requirement is not a budget, that the utilities will spend more in some years and less in others, that utility management must have the discretion to spend funds as it sees fit on the activities it believes have priority, and that the GRC provides an intentional incentive for utility management to "do it for less" by re-evaluating its spending on an actual basis.[7/] Thus failing to fund an activity in adopting a GRC revenue requirement is in no way the same as requiring shareholders to fund the activity.

In the GRC case cited by Aglet, PG&E is free to cut spending for other activities, within legal limits, in order to fund the economic development activities from operating revenues; or PG&E is free to not engage in the economic development activities at all. In neither of these cases would shareholders be funding the activity.

DRA's citation of a SoCalGas' GRC, Application 88-12-017, as precedent for shareholders being ordered to fund tariffed utility service is similarly inapt. (DRA, OB, pp. 12-

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6/ Aglet fails to note that a significant element of the CPUC's discussion of this February 17, 2000 decision centers on restructuring-related concerns, including the fact that "we have not decided whether expanding the scope of distribution competition is appropriate, and if it is, how captive customers are to retain the benefits of an integrated system. … Our staff is currently investigating the role that competition may play in this area. While that study is pending we are reluctant to conclude that PG&E requires additional ratepayer funding of anti-bypass efforts of the type proposed here." (D.00-02-046, *mimeo*, pp. 344-345.) Therefore this decision is entirely distinguishable.

7/ D.83-12-068, *mimeo*, pp. 78-80.

13.) In that proceeding, the Commission declined to include the capital costs of a museum exhibit in SoCalGas' GRC revenue requirement. However, just as in the PG&E case, here SoCalGas was free to reduce other capital investment or other expense to make up the difference in the amount excluded from the forecast revenue requirement. It was not forced to fund the activity with shareholder money (although it was certainly free to do so).

In support of its minimum guaranteed GHG reductions proposal backstopped by PG&E shareholders, CCSF provides only one citation to a precedent—also a GRC case. CCSF asserts that "shareholder fines for a poorly run program—one that, for example, wasted ratepayer funds—are within Commission authority and precedent" and cites to D.04-07-022, a decision issued in Southern California Edison's (SCE's) GRC. (CCSF, OB, pp. 25-26) In this instance, CCSF confuses fines with the prospective exclusion of certain costs from a GRC authorized revenue requirement. Fines are imposed after-the-fact, in the face of inappropriate conduct, not in anticipation of possible future misdeeds. The case cited by CCSF, however, is not one involving fines, but another instance in which the CPUC did not include forecast costs in a particular category in SCE's GRC revenue requirement—the same type of situation as discussed above.

In D.04-07-022, the CPUC found that because SCE had failed to perform 23 percent of the intrusive inspections it was funded to complete and expressed concern that ratepayers should not be required to pay a second time for activities explicitly authorized by the CPUC in the past just because of deficient or unreasonably deferred maintenance practices (a retrospective "double charging" concern. (D.04-07-022, pp. 106-108.) As with PG&E and SoCalGas, in this instance, SCE could cut other expenses in order to fund the inspections out of operating revenues. None of these GRC cases stands for the proposition that the CPUC has specifically ordered shareholder funding of a particular program.

Aside from citing to GRC decisions, Aglet and TURN also cite to charitable contributions PG&E makes as somehow being precedent for the proposition that the CPUC orders shareholder funding of utility programs. Aglet and TURN both cite to PG&E's "REACH program and to a solar schools program that are funded at least in part by shareholders." (Aglet, OB, p. 12; TURN, OB, p. 36.) However, these are not utility programs at all, nor were they ordered by the CPUC. Rather, PG&E voluntarily supports these efforts with charitable contributions, just as it supports a multitude of charitable endeavors. In these instances, PG&E has undertaken a charitable activity of its own accord, and PG&E's charitable contributions are not subject to CPUC oversight or regulation.

As shown in detail in PG&E's opening brief (PG&E, OB, p. 72,), the Commission has consistently and unambiguously held that it does not regulate the charitable giving of the companies under its jurisdiction, and will "not, as part of its ratemaking responsibilities, interject itself into utility management decisions regarding corporate philanthropy." (D.04-05-055, *mimeo*, p. 106.) Therefore these programs are entirely distinguishable, and provide no authority for the parties' requests that the CPUC order shareholder funding of the CPT, a tariffed program subject to CPUC oversight.

Similarly, TURN's references to political donations and political efforts, which PG&E undertakes of its own accord without CPUC oversight are also distinguishable (TURN, OB, p. 36; *see also* PG&E, OB, pp. 72-74). The CPT is not such an undertaking, and TURN doesn't argue that it is.

TURN (OB, p. 36) also provides an example of a California utility making shareholder contributions to support a demonstration program—asserting that "SDG&E spent 'several million dollars of shareholder money' on a pilot project to test broadband over power lines." (*citing* D.06-04-070, p. 19.) However the citation provided by TURN does not indicate that the

CPUC required this shareholder funding. Rather, it suggests that SDG&E shareholders decided to invest shareholder monies in a pilot program with the hope that the pilot program would yield fruits that could be used by a utility affiliate in a profit-making enterprise. Again, this situation does not represent a CPUC order for shareholder funding of a tariffed service offering like the CPT.

Finally, DRA, Aglet and TURN discuss the “benefits” that will accrue to PG&E shareholders from the CPT as a reason to order partial or complete shareholder funding of the program. (Aglet, OB, pp. 10-11; DRA, OB, pp. 12-13; TURN, OB, pp. 34-35.) However, as PG&E explained at some length in its Opening Brief, no party has demonstrated any quantifiable shareholder benefits from the proposed CPT. (PG&E, OB, pp. 80-82.)

CCSF claims PG&E would get a novel kind of shareholder benefit, that of “consulting or advising” other utilities. (CCSF, OB, p. 29.) CCSF seems to have made up this concept, for there is no citation to the record to substantiate it. Not only does PG&E not propose any such thing, but to do so would probably constitute a “new product or service” which under Commission regulations would require additional CPUC approval before PG&E could provide it.

5.3.2 The Four “Shareholder Funded” Out-of-State Programs TURN Cites Provide No Precedent for TURN’s Proposal; One Was Actually Funded by Customers, and the Other Three Involved Minor, if Any, Shareholder Funding in Settlements or With Mechanisms for Later Repayment by All Customers.

TURN’s opening brief (TURN, OB, p. 37) incorrectly claims that four small out-of-state green pricing programs cited in Exhibit 209 involve “shareholder contributions … Public Service of New Mexico, Mid-American Energy, Indianapolis Power & Light, and Idaho Power."[8/] However, a closer examination of these four programs shows that none provides any support for TURN's shareholder funding request here. As shown below, all four are distinguishable because they either contain mechanisms for later repayment by customers with interest, or are settlements or other *voluntary* shareholder contributions and were not *ordered* by the respective out-of-state Commissions involved.

The very fact that TURN eventually found only four obscure, underperforming programs out of the six-hundred utility green pricing programs throughout the country,[9/] belies TURN's claim that shareholder funding is appropriate. Not one of the four programs cited by TURN is a top performer, and three are well below the national average enrollment of 1.3 percent. And the one program cited by TURN that is slightly above the national average (Public Service Company of New Mexico) actually received 91 percent of its operating funds for its marketing and administrative from all ratepayers, with the remaining 9 percent coming from participants' premiums. In fact, when informally asked whether he was aware of any shareholder-funded green power pricing programs in the U.S., the Center for Resource Solutions' Dan Lieberman—a top expert in this field whose full time job is to track, document and communicate the success of green pricing programs—could not name a single shareholder funded program. (PG&E, Exh. 3, p. 2-9, lines 12-19, and fn.6.)

8/ Although it is true that "Ms. Roschelle identified" these programs (TURN, OB, p. 37), what TURN fails to note is that she did so in a data response submitted to PG&E the day before hearings started, not in TURN's responsive testimony which, like DRA's and Aglet's provided no in-state or out of state precedents for their claims of shareholder funding. TURN introduced this data response as a cross-examination exhibit (Exh. 209) while Mr. Luboff was on the stand.

9/ A 2006 NREL press release put on the record by TURN as Exh. 205 states there are now over 600 utility green pricing programs nationwide.

5.3.2.1 MidAmerican Energy

TURN's first alleged example of "shareholder funding" is MidAmerican Energy, in Iowa, whose "Renewable Advantage" green pricing program, began pursuant to a settlement on January 1, 2004, in compliance with a new state requirement that all utilities must offer their customers a way to contribute toward renewable energy. Not only was a voluntary, non-precedential settlement involved here, but clearly, over time, the shareholder funding MidAmerican agreed to pay, toward a capital wind generating asset that it would own, was actually designed to be *fully recouped from ratepayers*, including a generous rate of return.

Specifically, as TURN itself admits in its table in Exhibit 209, the funding from Mid-American's shareholders was primarily for 80 percent of the $1.6 million capital cost of a 1.5 MW wind turbine, which a December 24, 2003 Iowa Utilities Board decision[10/] showed would be owned by MidAmerican, and would also earn a return on this generator as part of its generating portfolio. (Exh. 209, p. 2.) Furthermore, once the settlement expires in 2010, the wind-generator's costs and wholesale revenue and tax benefits would be reflected in base rates, for recovery from ratepayers over an abnormally short depreciation period of only 10 years (instead of the usual 20 years), with a high rate of return (12.2 percent), despite arguments to the contrary by the Iowa Consumer Advocate's office. (Id., pp. 3-4.)

It is also clear from that decision that the assumptions about participating customers' total contributions—made up of monthly fixed dollar amounts or one-time contributions, and estimated to total $331,000, or approximately 20 percent of the investment cost of the generator—were derived "based on the results of a cash flow analysis model that determines the

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10/ *"Order Approving, With Conditions, Voluntary Purchase Program, Approving Tariffs, and Requiring Additional Information,"* Docket Nos. AEP-03-1 and TF-03-507, Iowa Utilities Board, Dec. 24, 2003.

investment level at which MidAmerican is *financially indifferent* to building the wind generator." (*Id*., p. 2, emphasis added.) In other words, MidAmerican's concept was to use customer contributions as leverage for the purchase of an actual wind generator (*Id*., p. 5), and MidAmerican's portion of the investment was equated with the net present value of the wind generator's estimated new wholesale revenues and tax benefits. (*Id*., p. 6.)

MidAmerican emphasized "the need for symmetrical ratemaking treatment of facility costs and benefits." (*Id*., p. 6.) And there was a backstop: if participant contributions are less than expected, or a critical assumption such as the federal Production Tax Credit were to change, MidAmerican could construct a smaller facility, or contract for energy purchases from a third party; or if contributions are more than expected, MidAmerican could consider building additional facilities. (*Id*., p. 2.)

In short, this wind project was meant to be an economic, capital investment for MidAmerican, which in no way is analogous to PG&E's CPT program. In fact it supports PG&E's point—the Commission cannot order a shareholder penalty, and here the settlement agreement provided for shareholders to be made whole by ratepayers, including a rate of return on an asset that it would own and put into rate base.

Furthermore, despite shareholders' up front participation, TURN admits that MidAmerican's program currently only has about 3,900 enrolled customers (or roughly 0.6 percent the eligible customers) (Exh. 209, table p. 2), far below the national average. Clearly, even the appearance of shareholder participation (despite the full payback later), did not foster a higher than average level of interest in this underperforming green pricing program. This example, therefore, provides no support for TURN's assertions but rather supports PG&E's position.

5.3.2.2 Indianapolis Power and Light

The second program TURN cites in its list is Indianapolis Power and Light's (IPL) "Green Power Option." According to the Indiana Utility Regulatory Commission document provided by TURN in Exhibit 209 (Cause No. 40959, Approved March 18, 1998), which lacks any financial data, IPL presented a settlement agreement executed by all the parties, that stipulates "IPL will provide a confidential annual report to the Commission." (*Id*., p. 5.) The parties to the settlement stated they did not object to this request. IPL would also sponsor annual closed-door technical conference for the Office of Utility Consumer Counselor, Citizens Action Coalition of Indiana, and United Senior Action. (*Id*.) Because of the confidential nature of the settlement, there is no officially noticeable information about either the level of program enrollment or the nature of program costs. The statement in TURN's table about an IPL employee's assertions about the percentage of shareholder funding is unverifiable hearsay, as well as a clear violation of the settlement's confidentiality provisions. Even more fundamentally, PG&E does not dispute that utilities can agree as part of a comprehensive settlement to some measure of shareholder participation, in exchange for other concessions. Clearly, this case cannot be used as a precedent for a Commission ordering a utility to involuntarily provide shareholder funding for a green pricing program, as this case involved a settlement.

5.3.2.3 Public Service Company of New Mexico

The third program TURN cites is the Public Service Company of New Mexico's (PNM) "Sky Blue" program, begun in 2003, to purchase Renewable Energy Credits (RECs). Here, again, we have a confidential settlement, approved by the New Mexico Public Regulation Commission (Case No. 03-00101-UT), which, again, provides no support for the proposition that Commissions can order utility shareholders to involuntarily fund tariffed programs. A careful review of the decision contradicts the unverifiable hearsay claim apparently made by a PNM employee to TURN (as recited in the table in Exhibit 209), that "[s]hareholders contribute a small portion towards marketing expenses including funding radio spots." Rather, the decision actually shows that the vast majority of the marketing costs of launching this voluntary renewable program were actually paid for by *all PNM customers*, and the remainder—the more modest costs of the ongoing incremental expenses necessary to maintain this program after launch—were included in the *premium*. For the first twelve months, PNM stated it expected to spend $633,000 to support the program, of which $576,000 would be redirected from pre-existing customer communication funds (Exh. 209, PNM "Certificate of Stipulation" at p. 8), that were *generated by rates approved by the Commission for the general body of ratepayers* (*Id*., p. 9, emphasis added.) PNM stated that it was only seeking recovery here of the remainder of $57,000 through the Rider itself (a 1.80 cent per kWh premium), to cover the incremental costs of a continued public awareness marketing campaign after the program had been launched and is established. Moreover, the Rider was to be re-evaluated in PNM's next General Rate Case in 2007, where the premium may be adjusted to ensure that it accurately reflects cost-based components. (*Id*., p. 15.) Thus, there is in fact no support in this case for finding any shareholder funding at all, and the language of the decision clearly reveals that *all ratepayers* have paid roughly 91 percent of marketing and administration costs, with the remaining 9 percent included in the premium paid by participating customers.

5.3.2.4 Idaho Power

The fourth and final out-of-state program listed by TURN is Idaho Power Company's optional "Green Energy Purchase Program" (or "Green Program"), begun in 2001. TURN admits that "[w]e do not know the amount of the marketing and administrative expenses [that were] covered by shareholders" for that program "from 2001 until the 2003 rate case." (TURN, Exh. 209, Table, p. 1.) TURN asserts, without citation, that the marketing and administration expenses for 2005 fall between $10,000 and $49,999. TURN merely offers unsupported hearsay statements from two Idaho Power employees that a "majority" of the marketing and administration expenses were covered by shareholders, but TURN quickly avers that the "exact percentage is unknown." However, the relevant February 23, 2001 decision by the Idaho Public Utilities Commission (Exh. 209, Case No. IPC-E-00-18, Order No. 28655) notes that Idaho Power "intends to expense all administration and marketing program costs until its next general rate case, [a]t [which] time…, however, the Company …intends to seek recovery of these costs if the program is approved." (*Id*., p. 7.) TURN did not show that there was no such recovery, and therefore no definitive conclusion of shareholder funding can be made. Inferences from a reading of the decision seem to indicate that it is possible that IPL may have voluntarily offered to potentially "absorb" such expenses until the next GRC.

Idaho Power specified that "all participating customer funds will directly be used for green energy purchases, and … administration and marketing expenses involved in the program will be expensed." (Id., p. 8.) Thus, just as PG&E has proposed with its CPT, none of the premiums paid by customers participating in the Idaho program would be allocated to "program overheads or marketing expenses." (*Id*., p. 1.)

To point out its commitment to the program's success, Idaho Power made an additional offer—it *volunteered* to "underwrite" the program's project-type costs, namely, for a one-MW purchase in the first year, if there were not sufficient participant premium payments to fund the purchase of that amount of renewable energy. The Company stated that this demonstrates a "self-imposed incentive to market the program to the best of the Company's ability" because "[a[ny *shortfall* of this effort would be to the detriment of the Company's shareholders." (*Id*., p. 8, emphasis added.) Under this voluntarily proposed *incentive* structure, how much Idaho

Power's shareholders would ultimately end up paying seems to have depended on whether enough customers signed up during the first year to underwrite the costs of a one-MW purchase.

How did they do? An Idaho PUC decision dated February 11, 2003, stated that Idaho Power had attracted about 1,600 participants (out of a total of 317,349 residential customers), requiring about 1 MW to serve. (2003 Ida PUC Lexis 14 *24.) An earlier news report on November 30, 2001 showed that the bulk of the participants—1,300 customers—had joined within the first year. This is close to the 1,600 that company sources were quoted as requiring about 1 MW to serve. So it would appear that despite Idaho Power's voluntary incentive offer, its shareholders actually ended up paying little or nothing to supplement the costs of that 1 MW voluntary offer as these costs appear to have been largely, if not entirely, covered by participant premium payments. Whether IPL's shareholders paid anything, and if so how much remains completely unproven by TURN.

What we do know—according to TURN's table in Exhibit 209 (Table, p. 2)—is that this Idaho Power program currently has enrolled only 2,000 or so participants, which is just about 0.5 percent of its total eligible customers. In other words, after five years of program operations, this program's enrollment level is less than half the national average for green pricing programs.

In short, the example of Idaho Power volunteering to potentially pick up some of the small costs in the earliest phase of this program provides no support for the implication by TURN that a Commission can order a utility's shareholders to involuntarily bear the costs of a non-discretionary, tariffed utility program subject to regulatory oversight outside of a restructuring context. For all of these reasons, and those amply set forth in Section 5.3 of PG&E's opening brief, the CPUC must reject all requests to attempt to impose any type of shareholder funding requirement as part its approval of the CPT.

5.4 Other Generators

No new arguments raised in opening briefs. See PG&E's discussion in its opening brief.

5.5 Taxpayers

The standard briefing outline adopted for this proceeding has two sections on tax deductibility, Section 4.11 and Section 5.5. Section 4 in its entirety deals with program design, while Section 5 in its entirety deals with benefits and cost responsibility. Therefore, Section 5.5 should deal primarily with the benefits to, and cost responsibility of, taxpayers. Nonetheless, the issues shade over between the two sections. PG&E has made extensive comments on the relevance of tax deductibility to program design in both its opening brief (PG&E, OB, pp. 40-43) and above in section 4.11 of this reply brief. However, PG&E will make one point here about cost responsibility that has not been directly addressed before.

TURN, in Section 4.11 of its opening brief, says that making the program tax deductible for residential customers can lower the program costs to both participants and non-participants. (TURN, OB, p. 16.) Certainly, tax deductibility, if instituted for residential ratepayers, would reduce the net cost to the participants, assuming they itemize their income taxes. However, tax deductibility does not reduce the cost to non-participants at all since neither they, nor PG&E, receive any financial benefit from the tax deductions realized by participants. Therefore, there is no way for the Commission to shift any program costs from PG&E and non-participants to taxpayers.

5.6 Timing of Benefits

No new arguments raised in opening briefs. See PG&E's discussion in its opening brief.

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6. CONCLUSION

For all of above reasons, as well as those set forth in PG&E's opening brief and in PG&E's testimony and exhibits in this proceeding, the CPUC should approve the proposed CPT demonstration program as set forth in the Summary of Recommendations in PG&E's opening and reply briefs, including PG&E's agreement to several proposals by other parties. The Commission should also approve the revenue requirement request contained in PG&E's original supporting testimony.

By adopting the CPT, the CPUC will be approving an innovative pilot program that will support the CPUC's and the Governor's climate change goals. It will also be establishing a potential model for making further strides in addressing climate change, through real, independently-verifiable, high-quality GHG reductions.

Respectfully Submitted,

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APPENDIX A

The tables below are presented as an alternative to PG&E's primary proposal that marketing and administrative costs be recovered from all customers, not from the premiums paid by participants. The discussion of PG&E's alternative proposal is contained in Section 5.1 above. The corresponding tables for PG&E's primary proposal are contained in PG&E's direct testimony (PG&E, Ex. 1, pp. 4-3 and 5-8.)

TABLE 1
PACIFIC GAS AND ELECTRIC COMPANY
***ALTERNATIVE* PROPOSED CPT RATES**

Line No.	Category	Lbs. GHG per therm/ kWh	$ per ton of GHG	Rate per Therm/kWh
1	Gas			
2	Customer Use	11.7	9.71	$0.05680
3	Distribution	1.746	9.71	0.00848
4	Marketing & Administration	N/A	N/A	0.00459
5	Total Rate per therm			$0.06987
6	Typical Residential Customer Cost per month (@ 45 therms)			$3.14
7	Electric			
8	Customer Use	0.52	9.71	$0.00252
9	Distribution	0.004	9.71	0.00002
10	Marketing & Administration	N/A	N/A	0.00089
11	Total Rate per kWh			$0.00344
12	Typical Residential Customer Cost per month (@ 540 kWh)			$1.86

TABLE 2
PACIFIC GAS AND ELECTRIC COMPANY
***ALTERNATIVE* CPT BILL ANALYSIS – TYPICAL RESIDENTIAL CUSTOMER**
(BASED ON JANUARY 1, 2006 RATES)

Line No.	Category	Present	Proposed	$ Change	Percent Change
1	Gas Bill Impact	$76.04	$79.18	$3.14	4.1%
2	Electric Bill Impact	67.64	69.50	1.86	2.7%
3	Total	$143.68	$148.68	$5.00	3.5%

TABLE 3
PACIFIC GAS AND ELECTRIC COMPANY
***ALTERNATIVE* ELECTRIC AND GAS REVENUE REQUIREMENTS BY YEAR, 2006-2008**

Line No.	Cost Category	2006	2007	2008	2009	Total
1	Marketing & Administration (M&A)	$1,300,000	$3,770,000	$5,120,000	$6,070,000	$16,260,000
2	Premium M&A	0	581,721	1,745,162	2,908,604	5,235,487
3	Non-Participant M&A	1,300,000	3,188,279	3,374,838	3,161,396	11,024,513
4	Electric Non-Participant M&A	910,000	2,231,600	2,362,500	2,212,000	7,716,800
5	Gas Non-Participant M&A	390,000	956,400	1,012,500	948,000	3,307,200
6	Electric Revenue Requirements	918,738	2,253,028	2,385,185	2,233,240	7,790,190
7	Gas Revenue Requirements	394,598	967,675	1,024,436	959,176	3,345,885
8	Total Revenue Requirements	$1,313,336	$3,220,703	$3,409,621	$3,192,416	$11,136,075

CERTIFICATE OF SERVICE BY ELECTRONIC MAIL

I, the undersigned, state that I am a citizen of the United States and am employed in the City and County of San Francisco; that I am over the age of eighteen (18) years and not a party to the within cause; and that my business address is 77 Beale Street, San Francisco, California 94105

On July 28, 2006, I served a true copy of:

REPLY OPENING BRIEF OF
PACIFIC GAS AND ELECTRIC COMPANY

[**XX**] By Electronic Mail – serving the enclosed via e-mail transmission to each of the parties listed on the official service list for A.06-01-012 with an e-mail address.

[ ] By U.S. Mail – by placing the enclosed for collection and mailing, in the course of ordinary business practice, with other correspondence of Pacific Gas and Electric Company, enclosed in a sealed envelope, with postage fully prepaid, addressed to those parties listed on the official service list for A.06-01-012 without an e-mail address.

I certify and declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed on this 28th day of July 2006 at San Francisco, California.

/s/

THOMAS A. JARMAN

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